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¶1. (U) Summary. This is Volume 8, issue 51 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:

- Inflation Lower
- Residential Building Continues to Slow
- Bill Simplifies Registration Process for New Drugs
- Intelsat to Launch $250 Million Satellite for Africa
- France Telecom Plans New ACE Fiber-Optic Cable to Link African West Coast to Europe
- Regulator Unveils Proposed Power Conservation Rules for South Africa
- Layoffs Loom in Mining and Other Sectors
- Durban Working to Reduce Water Loss

End Summary.

Inflation Lower

¶2. (U) CPIX inflation (CPI less mortgage cost) dipped from 12.4% in October to 12.1% in November reports Statistics South Africa (StatsSA). Lower food and fuel inflation accounted for much of the drop. This was the third monthly decline after the 13.6% was registered in August. However, the latest figures were below the market forecast of 11.8%, suggesting that interest rates may not be cut as steeply as the market expects. The market has been pricing in up to 500 basis points of cuts by the end of next year. Economists noted that rand weakness would slow the process of disinflation, and that there is no evidence yet that prices are slowing across a broad front. The South African Reserve Bank (SARB) expects inflation to fall sharply in the first half of next year as food and fuel prices drop and to return within the 3%-6% target range by the third quarter of 2009. (Business Day, December 18, 2008)

Residential Building Continues to Slow

¶3. (U) StatsSA reports that the real value of residential building plans approved between January and October 2008 declined by 24.2% year on year (y/y). This was primarily caused by high interest

rates, more stringent requirements for credit, and economic uncertainty. Analysts expect residential building activity to remain under pressure well into next year. At a regional level, the number of plans approved for new housing units was down about 25% y/y in the Western Cape and Gauteng. KwaZulu-Natal continued to register growth over the period, supported by the lower end of the market. The slowdown in residential building has already had negative effects on contractors, brick manufacturers and materials suppliers. (Business Day, December 18, 2008)

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Bill Simplifies Registration Process for New Drugs
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¶4. (U) The final version of the Medicines and Related Substances Amendment Bill has removed a proposed two-tier registration process for new drugs. The pharmaceutical industry objected to the proposed process, charging that it would interfere with expeditious registration of new drugs and the approval of clinical trials. The old version of the bill also renewed tensions between the industry and the Department of Health because it attempted to include the Minister of Health in the process of registering medicines. The new version anticipates that the South African Health Products Qversion anticipates that the South African Health Products Regulatory Authority (SAHPRA) would oversee the registration of medicines and the approval of clinical trials. Pharmaceutical industry representatives expressed satisfaction with the final version of the bill. (Business Report, December 8, 2008)

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Intelsat to Launch $250 Million Satellite for Africa
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¶5. (U) Privately-owned satellite firm Intelsat and a South African investment consortium plan to build and launch a $250 million satellite to improve communications and attract foreign investment in Africa. Intelsat and an investment group led by Convergence Partners said the "Intelsat New Dawn" satellite is expected to enter

service in early 2011. Demand for fixed satellite services in Africa is growing because of increased investment on the continent and a growing number of people who sign up for phone, internet, and cable services. The project would be funded with 15% equity and 85% debt. Intelsat and the Convergence Partners-led group would provide the equity; Nedbank and the Industrial Development Corporation of South Africa would be the biggest providers of debt. Mobile operators Vodacom and Kuwait's Zain have already indicated that they would use the satellite. (Engineering News, December 9, 2008)

France Telecom Plans New ACE Fiber-Optic
Cable to Link African West Coast to Europe

¶6. (U) France Telecom-Orange recently signed a memorandum of understanding for the installation of a fiber-optic, submarine cable that would provide over 20 countries within the West African coastal region with internet access. The 12,000 kilometer ACE (Africa Coast to Europe) cable would extend from Gabon to France. ACE is expected to connect Gabon, Cameroon, Nigeria, Benin, Togo, Ghana, Ivory Coast, Liberia, Sierra Leone, Guinea, Guinea Bissau, Senegal, Gambia, Cape Verde, Mauritania, Morocco, Spain, Portugal, and France from 2011. An extension to South Africa is also being studied. France Telecom operates in 15 African countries and is a co-owner of several submarine cables linking Africa with to the rest of the world. It is a co-owner of the SAT3-WASC-SAFE cable (which links Portugal to Malaysia via the West African Coast) and Atlantis-2 (which links Portugal to Argentina via Senegal). (MYBROADBAND.co.za, December 15, 2008)

Regulator Unveils Proposed Power
Conservation Rules for South Africa

¶7. (U) The National Energy Regulator of South Africa (NERSA) laid out rules for its power conservation program in a bid for reaction from the public and affected sectors by early January of 2009. The program proposes limiting electricity usage on an annual basis. Users would pay a surcharge if they exceed their electricity allotment. "The program is designed to accelerate the achievement

of energy savings through behavior change and promoting the use of demand side management," NERSA said in the proposal. State-owned utility Eskom has been rationing electricity since January of 2008 when the national grid nearly collapsed, forcing mines to temporarily shut down. The reduction in consumption from conservation would provide Eskom with the "breathing space" necessary to address unplanned maintenance and possible slippages in the tight timeline for bringing new capacity onto the grid between 2008 and 2013. NERSA excluded from its penalty plan national priority projects such as providing essential services and the construction of stadiums for the 2010 World Cup and Gautrain. (Engineering News and Business Day, December 17, 2008)

Layoffs Loom in Mining and Other Sectors

¶8. (U) Analysts and institutions have started to tally estimates of
Q8. (U) Analysts and institutions have started to tally estimates of
mining and other layoffs in South Africa. The Chamber of Mines has asserted that layoffs would be a last resort, but stated that over 9,000 South African mining jobs are at risk. The National Union of Mineworkers insists that its priority is to defend jobs, calling for a moratorium on layoffs. Trade Union Solidarity reported that it had received notice of a possible 9,163 layoffs in mining. Platinum miner Lonmin has already announced that some 5,500 workers might lose their jobs. The future of about 1,700 workers at DRDGold South Africa's East Rand Proprietary Mines is in doubt. Petra Diamonds has also confirmed that it had issued a notice to trade unions to start consultations over the future of 1,000 employees. Mining contractor Murray & Roberts plans to lay off more than 1,400 employees. Namakwa Diamonds said it planned to lay off 355 of its 605 employees. Rio Tinto has announced plans to lay off thousands of its world-wide employees, but has not disclosed specific plans for its South African operations. Anglo American announced significant cutbacks in capital expenditures, jobs, and production. This could affect jobs at Anglo Plat and Kumba Iron Ore. Aquarius Platinum has shut its Everest Mine for six months for technical and safety reasons, cutting up to 1,950 jobs. One analyst cited the following job losses: Ford (800), ArcelorMittal (200 contract workers), DRD Gold (1,700), Lonmin (5,500 plus 1,400 contract

workers), Uranium One (1013), new car dealers (3,500), Absa (1,210), and Mutual & Federal (600). (Mining Weekly, Business Report, Business Times, Business Day, December 12-17, 2008)

Durban Working to Reduce Water Loss

¶9. (U) Durban's R850 million ($85 million) asbestos cement water pipe replacement program is expected to save rate payers more than R248 million ($24 million) in water loss per year. The project entails laying an estimated 2,800 kilometers of pipeline. The objective of the project is to reduce water loss to 20% in the next five years. Durban "is planning ahead to prevent a full-blown water crisis. The old burst-prone pipes are being replaced with modified polyvinyl chloride pipes that have an estimated 50-year life span," commented Alan Kee, Durban's Water and Sanitation Project Executive. (Engineering News, December 8, 2008)